

## More problems from globalisation

We all know how much the international community loves to meddle in our sector's affairs. The next item on its list as regards financial matters is the methodology used to record financial transactions and balances in your year end accounts. As things stand, for all but the very largest of businesses, this methodology is based on UK Generally Accepted Accounting Principles. For those very large entities, i.e. the Plc's, it uses an international methodology. This, you could say, makes perfect sense given these very large businesses operate globally (generally speaking) and the uniform application of a set of rules across global businesses operating at a global level allows for comparability.

However, in their wisdom, the powers that be believe that everyone should adopt a global standard. To cut a very long and boring story short, this means it is proposed that medium sized entities in the UK should adopt a form of international financial reporting and it seems likely that, over time, all enterprises will have to adopt an international form of financial reporting standards.

Now assuming you have got this far and this factsheet hasn't been used as kindling or to feed your waste paper bin then you will probably be wondering how this could affect our sector.

Firstly, sooner or later, it will mean the way we measure a number of items in your financial statements and how these financial statements are presented will have to change. This is a good few years away but the net result is more work during the transition year which one of us will have to pay for. At this stage it is unclear when this will be but we do not expect implementation for the next three years so let us not get too far ahead of ourselves and worry about it at this stage.

The main issue is the proposed implementation of an International Accounting Standard specifically relating to agriculture "IAS41". The net impact of this is that stock valuations in accounts would be uplifted to market value in a number of cases which could lead to a significant acceleration of the recognition of profit. In short you pay tax on profits you haven't yet made!

As you would expect Chavereys are at the forefront of opposing this and Nick Holmes, who sits on the Institute of Chartered Accountants Farming & Rural Business Committee, has been directly involved in the International Accounting Standard debate and we continue to oppose the introduction of "IAS41".

In all likelihood this will affect medium sized entities far more quickly than it affects smaller sized entities. A business is a medium size business rather than a small business if it qualifies on 2 out of 3 tests:

1. It turns over more than £6.5 million net of VAT.
2. It has a balance sheet total of more than £3.26 million.
3. It has more than 50 employees and this is assessed on a full time equivalent basis e.g. seasonal staff averaged over the year.

This may therefore affect more of you than the outside world may think.

So what do you need to do at this stage?

It is vitally important that you, as an individual stakeholder, take this matter up with either your local NFU, CLA or any other industry body and that you oppose the introduction of yet more regulation. We have no doubt that the introduction of International Standards and, in particular, "IAS41" to the sector, will add no benefit just substantial costs and complications when what we need to do is simplify our lives.

## **CAP reform – Capping Threat**

Many of you will have seen the latest ‘leaked’ European Commission proposals on capping. Despite much opposition it seems capping at a rate linked to a farm’s payroll cost is a real possibility. In simple terms the higher the payroll of a farm, the less the impact of capping will be. It is not for us to go into the detail of this leaked information at this stage and scaremonger. Based on current statistics it is forecast any capping measures would affect almost 3,000 UK farmers.

This note is merely to say we are on the case and if there is any remedial action that we believe can be taken we will advise you when, or indeed if, the proposals become clearer.

This needs to be approached in a structured fashion. As with all these things there will be a lot of panicking and a lot of professionals jumping on the bandwagon trying to contrive schemes when we do not yet even know the position.

A blinkered approach to this in terms of restructuring may or may not protect your Single Payment. In most cases the saving will be small and may have an overall adverse impact on your business in terms of other, more important aspects e.g. tax.

Please bear with us while we absorb this latest news.

---

Please contact your usual Chavereys contact if you have any specific questions on the above.

*This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, Chavereys, its partners, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.*

© 2011 Chavereys. All rights reserved